

AR25

31st
Annual Report
Year Ended June 30
1967



GENERAL AMERICAN
OIL COMPANY
OF TEXAS





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General American Oil Company of Texas

31st ANNUAL REPORT FOR YEAR ENDED JUNE 30, 1967

FINANCIAL HIGHLIGHTS

	<i>Year ended June 30, 1967</i>	<i>Year ended June 30, 1966*</i>
Gross operating income.....	\$ 40,534,722	\$ 36,336,598
Operating income	\$ 15,870,254	\$ 13,035,547
Net income	\$ 12,365,777	\$ 8,728,513
per share**	\$ 2.73	\$ 1.93
Cash flow ***	\$ 25,878,403	\$ 21,571,131
per share**	\$ 5.71	\$ 4.76
Common stockholders equity.....	\$127,573,024	\$116,993,647
Dividends paid per common share:		
Cash	\$.40	\$.40
Stock	3%	3%

OPERATING HIGHLIGHTS

	<i>Year ended June 30, 1967</i>	<i>Year ended June 30, 1966</i>
Crude oil sales — net barrels.....	9,299,141	8,734,195
Gas sales — net Mcf.....	60,718,442	51,846,050
Wells drilled — net	18	22
Wells owned — net	1,861	1,950
Wells operated — gross	1,927	2,028

* Restated in accordance with Note B to the Financial Statements.

** Based on 4,532,000 common shares outstanding at June 30, 1967.

*** Net income plus non-cash and exploratory charge-offs: depletion and depreciation, dry holes and abandonments, and lease rentals.

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Officers and Directors

OFFICERS

ALGUR H. MEADOWS, *Chairman of the Board and Executive Committee*
WILLIAM P. BARNES, *President*
FREDERICK H. CONNALLY, *Executive Vice President, Finance*
LEWIS P. O'NEILL, *Executive Vice President, Operations*
J. KENNETH RIGSBEE, *Secretary*
J. DONALD BROWN, *Vice President, Purchasing*
JAMES W. GOSS, *Vice President, Land*
JOE M. HAAS, *Vice President, Engineering*
JERE G. HAYES, *Vice President, Legal and Assistant Secretary*
FRED C. HIGGINBOTHAM, JR., *Vice President and Treasurer*
CHARLES M. KENNEDY, *Vice President and Controller*
NORMAN W. KROUSKOP, *Vice President, Production*
GEORGE RHODUS, *Vice President and Assistant to the President*
ROBERT M. SWESNIK, *Vice President, Foreign Operations*
MALCOLM E. WILSON, JR., *Vice President, Geology*
JOHN T. REYNOLDS, *Assistant Vice President, Production*
MARTIN W. VERNON, *Assistant Vice President, Geology*
BRYAN T. CRENSHAW, *Assistant Secretary and Assistant Treasurer*
DONALD C. APELAND, *Assistant Secretary*
JOHN C. COOPER, *Assistant Secretary*

EXECUTIVE COMMITTEE

ALGUR H. MEADOWS, *Chairman*
WILLIAM P. BARNES
FREDERICK H. CONNALLY
LEWIS P. O'NEILL

DIRECTORS

ALGUR H. MEADOWS, *Chairman*, Dallas, Texas
RUSHTON L. ARDREY, Dallas, Texas
WILLIAM P. BARNES, Dallas, Texas
J. PORTER BURGESS, Monroe, Louisiana
PAUL A. CONLEY, New York, New York
FREDERICK H. CONNALLY, Dallas, Texas
J. J. DANIEL, Jacksonville, Florida
JOSEPH W. DAVIN, Jacksonville, Florida
HAL M. GATTI,* Keithville, Louisiana
CHARLES W. LEWIS, New York, New York
FREDERICK M. MAYER, Dallas, Texas
LEWIS P. O'NEILL, Dallas, Texas
J. KENNETH RIGSBEE, Dallas, Texas
CHARLES B. SHERROUSE, Monroe, Louisiana
GORDON SIMPSON, Dallas, Texas
JOHN M. STEPHENS, Tyler, Texas
JAMES R. STOCKTON, JR., Jacksonville, Florida
JIM M. VAUGHN, Tyler, Texas
BROWN L. WHATLEY, Miami, Florida
* Deceased May 25, 1967



President's Letter

TO THE STOCKHOLDERS:

A net income increase of 41.6% from last year's record high was the financial highlight of the fiscal year ending June 30, 1967. Net income was \$12,365,777, or \$2.73 per share, compared with \$8,728,513, or \$1.93 per share, for 1966. Gross income of \$40,534,722 represented an increase of 11.5% over gross income of \$36,336,598 for the prior year. Cash flow was \$25,878,403, or \$5.71 per share, compared with \$21,571,131, or \$4.76 per share for the prior year, an increase of 20%. These record amounts would have been still higher had not the Company adopted a change in accounting for its interstate gas sales. The effect of this change was to decrease net income for 1967 by \$789,102 and for 1966 by \$570,571.

Stockton, Whatley, Davin & Company also achieved an all-time high in profits with net income of \$1,493,506, compared to \$824,932 for fiscal 1966. These highly creditable results were obtained in a year that was marked by an unfavorable mortgage market most of the period.

Drilling on the Company's partially developed properties continued to be stressed. Offshore drilling in the Block 45 field was notably successful and further exploitation and exploration drilling is planned for this area. Exploration will gradually receive more emphasis in future years than in the past few years of Company operations. Unless the regulatory climate for gas producers should improve, the Company's effort in exploration will be directed toward increasing its oil reserves in the United States and Canada. The recent crisis in the Middle East has dramatically shown the desirability of domestic oil reserves from the standpoint of national defense as well as that of the Company's shareholders.

Two significant transactions have been effected since the close of the fiscal year. The first of these was the sale on September 7, 1967 of the Company's stock in Fargo Oils Ltd. to Reserve Oil and Gas Company, for the amount of \$11,091,005. While the sale severed many fine relationships of long standing with our former associates in Fargo, it is satisfying to know that organizational efficiency will be improved as future operations in Canada will be conducted by General American Oils, Ltd., a wholly-owned subsidiary. The second transaction, which will also improve operational efficiency, is the agreement of merger approved by the respective Boards of Directors of Premier Petrochemical Company and GAO. The plan of merger is subject to approval of Premier shareholders at a meeting called for October 18, 1967. It is anticipated that Premier's operations will be carried on in the future by a wholly-owned subsidiary of the Company and that the future may offer opportunities for profitable expansion in the field of petrochemicals.

Yours very truly,

President

September 11, 1967
Dallas, Texas

Domestic Operations

ACQUISITIONS

One hundred possible acquisitions of producing oil and gas properties were considered during the fiscal year and six purchases were closed. The total consideration involved in these purchases, including both cash and production payments, was \$4,883,900.

The properties purchased consisted of various working interests in leases situated in South Louisiana, New Mexico, Oklahoma and Texas. In addition, one of the purchases included a substantial number of mineral, royalty and overriding royalty interests located primarily in Texas. Company engineers estimate that these purchases added 3.2 million barrels of oil and 14.8 billion cubic feet of gas to the Company's net reserves.

Since the close of the fiscal year, two acquisitions have been closed. One purchase involved an interest in four gas wells in the Lawson field, Acadia Parish, Louisiana, and the other involved interests in two leases in the East Texas field. Total consideration for both deals including cash, notes and production payments was \$1,156,800. The Company

is continuing its efforts to add to its producing oil and gas properties by acquisition.

DRILLING

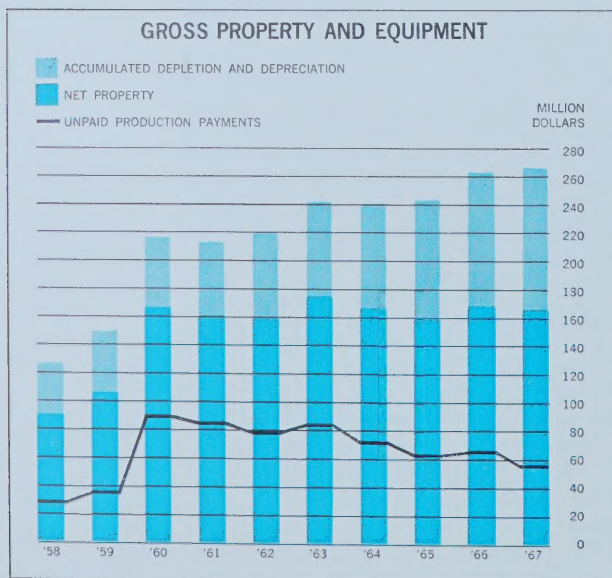
During the fiscal year just closed, the Company drilled 13 wells and participated in 25 wells drilled by partners, for a total of 38 wells. This compares with 9 wells drilled by the Company and 48 drilled by partners in the prior year, for a total of 57 wells. Thirty of the 38 wells were developmental in nature, and were largely incident to the further development of properties purchased by the Company during recent years. The Company's interest in wells drilled by it and partners was 11 net wells, compared with 19½ net wells in the prior year. Of the 11 net wells, 6.56 were productive and 4.45 were dry. The average depth of the wells increased to over 9,600 feet, compared with an average depth of 9,000 feet in the prior year. The details of this drilling program are shown on page 8.

In addition, the Company owned royalty, net profit or mineral interests under lands on which there were 50 wells drilled by others. Of these wells, 30 were productive of oil or gas and 20 were dry.

The Company actively pursued remedial operations on old wells completing 60 work-over jobs, 12 of which were incident to the development of secondary recovery projects.

PRODUCTION

At June 30, 1967, General American owned interests in domestic leases equivalent to 1,469 net oil wells and 190 net gas wells. Sales from these wells for the year ended June 30, 1967, aggregated 8,343,207 barrels of oil and 58,342,666 Mcf. of gas. Compared with sales for fiscal 1966 of 8,011,673 barrels of oil and 49,420,571 Mcf. of gas, these represent increases of 4% in oil and 18% in gas. Both oil sales and gas sales were at a new high. Increased oil sales were obtained in Texas, and increased gas sales in the Louisiana Gulf Coast. Proration in Texas averaged 34.84% of scheduled allowables, compared with 31.32% for



NET ACRES UNDER LEASE IN UNITED STATES

as of June 30, 1967

State	Producing	Non-Producing
Arkansas	240	—
California	2,933	161
Colorado	1,120	5,500
Illinois	623	—
Kansas	8,535	3,745
Louisiana	40,876	26,566
Mississippi	142	28,477
New Mexico*	15,224	52,451
Oklahoma	8,648	—
Texas	67,851	40,010
Wyoming	597	4,111
	<u>146,789</u>	<u>161,021</u>

* Includes 49,770 acres in which the Company owns oil rights (which are held by gas production) but owns only a net profits interest in gas production.

fiscal 1966, an increase of 11%. For the months of July and August, 1967, allowables were set at 48% and 54% respectively.

The Company operated 1,554 oil wells and 176 gas wells in the United States. The gross sales from these wells for fiscal 1967 were 9,414,781 barrels of oil and 103,075,901 Mcf. of gas.

ACREAGE

At June 30, 1967, General American owned 307,810 net lease acres in the United States, of which 146,789 acres were producing and 161,021 acres were non-producing.

Several highly prospective lease blocks were recently acquired in South Louisiana. One of these consisted of a 16½% interest in approximately 1,200 acres in the Bayou St. Vincent area, and another a 35% interest in approximately 3,150 acres in the Lake Verret area, both in Assumption Parish.

East of the Fordoche field, the Company acquired a lease block of approximately 1,000

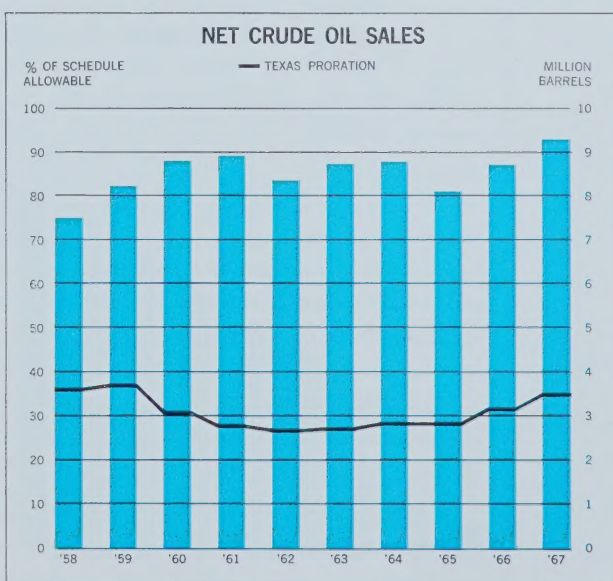
acres, which appears favorably located for the deep Wilcox.

During the year, the Company consummated 31 farmouts. On this acreage, 24 wells were completed, of which 12 were productive and 12 were plugged and abandoned. Five wells are presently drilling and 2 wells will be commenced in the near future. These farmouts provided for a footage of approximately 280,000 feet to be drilled at no cost to the Company.

LOUISIANA

A deep well drilled offshore from Cameron Parish in the Block 45 field resulted in the Company's first quadruple completion. This well, the General American OCS 300 — State Lease 1134 No. 14, was carried to a total depth of 16,002 feet but failed to establish production in the deeper sands. All completions were in field sands and were productive of gas. A fifth field sand is deemed capable of production and may be selectively completed in the future.

Since the close of the fiscal year, two wells have been completed in a new fault block on the southern portion of the Company's



8,125-acre lease block. The General American OCS 301 – State Lease 1137 No. 2 is a triple completion in two gas zones and one oil zone. The General American OCS 301 – State Lease 1137 No. 3, the first confirmation well, is a triple completion in two gas zones and one oil zone, however, different zones than in the No. 2. The No. 3 well has 157 net feet of sand productive of oil or gas.

To date, two oil and four gas zones have been established in this new fault block. The oil completions averaged over 250 barrels of oil per day and the gas zones tested at an average rate of 4 million cubic feet per day plus 40 barrels of condensate. Additional drilling will be necessary to evaluate the area and continuous development is planned.

Unitization of the Southdown sand in the Hollywood field, Terrebonne Parish, was effected in a hearing before the Louisiana Department of Conservation. This field-wide unit was unitized on a surface-acre basis with the Company's participation 8.89%.

West of the Hollywood field, extensive seismic work has been conducted and a deep Southdown sand test is planned later this year. Based on previous drilling and seismic work, General American's acreage was evaluated

and 1,840 acres of unfavorably located leases released, the Company retaining substantial interests in 9,000 acres.

At Southeast Gueydan, Vermilion Parish, tests of the Zaunbrecher-Hardee Unit well, drilling at the close of the prior year, were excellent. Through perforations 16,336 to 16,350 feet, in a 110-foot gas sand, the well flowed 6,757,000 cubic feet of gas per day on a small choke, with 11,000 pounds pressure. Other zones appear productive of gas in this well.

North of the Zaunbrecher-Hardee Unit well, the Company and others drilled a well to test the Marginulina Texana sands. This well was temporarily abandoned at 18,932 feet, after failing to find productive sand. General American owns various interests in approximately 4,000 acres in the immediate vicinity.

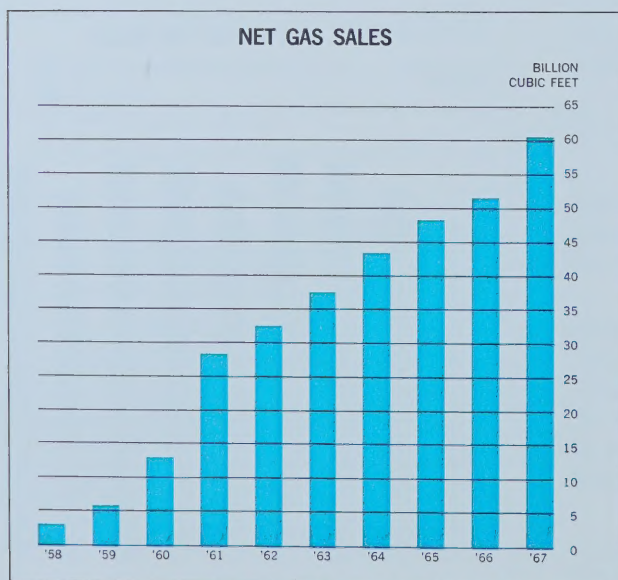
Development of the Bayou St. Vincent field, Assumption Parish, has established two separate productive fault blocks, with seven gas reservoirs in one and one gas reservoir in the other. Further drilling is planned to test deeper zones in the latter fault block. Producing units have been applied for before the Louisiana Department of Conservation, and gas sales from this field will begin in September.

In the Fordoche field, Pointe Coupee Parish, one well has been completed by a major oil company on a 2,450-acre lease block farmed out under a continuous development program, General American retaining a 10% overriding royalty, convertible to a 50% net profits overriding royalty in each well after payout. The first well potentialed through small chokes 372 barrels of oil per day from the W-8 sand and 271 barrels from the W-12 sand.

TEXAS

The Company participated with small interests in two Smackover wildcats in East Texas, one of which established the new Brantley Jackson field in Hopkins County. The other well, in Cass County, was a dry hole.

During the past year, the Company committed leases to four waterflood units, namely:



the Southeast Levelland Unit, Hockley County; the Neva West (Strawn) Unit, Schleicher County; the Southeast Garza (San Andres) Unit, Garza County; and the North McElroy Unit, Crane and Upton Counties. The estimated secondary recovery reserves from these units to the Company's net interests are 2,200,000 barrels of oil.

The gasoline plant servicing the Dora Roberts Ranch properties in Ector and Midland Counties, Texas, is presently being enlarged and modified to accommodate the substantial increases in gas production which are resulting from gas injection into the Devonian and Virey Ellenburger formations as well as from increased statewide oil allowables. A total expenditure of \$3,000,000 (\$947,000 to the Company's 31.56% interest) will be required. The project is scheduled for completion by January 1, 1968. It is anticipated that LPG and natural gasoline recovery will be increased from 130,000 gallons daily to 220,000 gallons, or some 68%. Increased production, together with recent strengthening of plant product prices, should assure greatly improved profitability from this operation for some years to come.

NEW MEXICO

An undivided 34.27% interest, purchased last year in a 40,000-acre partially developed property in Rio Arriba County, New Mexico, was sold this year. The Company recouped all of its investment and in addition reserved an oil payment of \$100,000 and a 20% net profits overriding royalty.

An interesting and potentially rewarding experiment known as "Project Gasbuggy" will involve a lease in which the Company owns an interest. Project Gasbuggy is a cooperative venture of El Paso Natural Gas Company, the United States Atomic Energy Commission and the United States Department of the Interior, and involves the nuclear stimulation of low permeability gas-bearing underground rock formations. It has been announced that a 26 kiloton device will be detonated on November 14, 1967, at a subsurface depth of

4,240 feet. The purpose of this project is to "unlock" natural gas reserves that are known to exist, but which cannot be economically recovered through the use of current well stimulation techniques. Conventional stimulation techniques are capable of recovering only 10% of inplace gas over a 20-year period, whereas it is hoped that nuclear stimulation will result in the recovery of 70% of such gas over the same period of time. It is hoped that this project will add much to scientific knowledge and provide an economic method of adding to the Nation's natural gas resources.

The Company has agreed to waive any claim for damages to its wells or minerals at the test site and has agreed to make a modest contribution to the project; however, none of the costs of the experiment are chargeable to the Company's net profits overriding royalty interest, other than the agreed contribution.

General American owns a 25% net profits interest in approximately 50,000 net acres in this area, including the test site, which is the SW/4 of Section 36-29N-4W, Rio Arriba County, New Mexico.

PIPELINE

A wholly-owned subsidiary, General American Pipe Line Company, operates a gathering system of 202 miles in the East Texas field and a 40-mile trunk line connecting the system to Pure Oil Company's trunk line at Bullard, Texas. In fiscal 1967, the Company purchased 5,168,400 barrels of oil from approximately 1,969 wells, compared to 4,748,100 barrels bought from approximately 2,017 wells in fiscal 1966, an increase of 9%. Although fiscal 1967 purchases averaged 14,160 barrels of oil per day, the Company, as a result of increased allowables, is presently purchasing approximately 18,750 barrels per day.

The majority of the oil gathered is delivered through the trunk line and sold to Pure Oil Company, a division of Union Oil Company of California, under a long-term contract. These sales, in fiscal 1967, aggregated 4,904,000 barrels, compared with 4,524,800 barrels in fiscal 1966.



Well Completions

YEAR ENDED JUNE 30, 1967

UNITED STATES—COMPANY OPERATED:

			GROSS WELLS						NET WELLS							
FIELD		DEPTH	Total	Development			Exploratory			Total	Development			Exploratory		
		(FEET)		Oil	Gas	Dry	Oil	Gas	Dry		Oil	Gas	Dry	Oil	Gas	Dry
Louisiana	Bosco, Acadia Ph.	1,900	1			1				.94			.94			
	Bosco, Acadia Ph.	9,700	1	1						.94	.94					
	Crescent Farms, Terrebonne Ph.	11,300	1			1				.38			.38			
	Perkins, Calcasieu Ph.	5,800	1	1						.44	.44					
	Perkins, Calcasieu Ph.	7,000	1		1					.44		.44				
	Wildcat, St. Landry Ph.	10,000	1						1	.50						.50
	Wildcat, Lafourche Ph.	13,000	1						1	.50						.50
	Wildcat, Cameron Ph.	16,000	1				1*			.50				.50*		
Texas	East Texas, Rusk	3,700	1	1						.32	.32					
	South Hartburg, Orange	7,000	2						2	.77						.77
	Red Loflin, Garza	8,200	1	1*						1.00	1.00*					
	Wildcat, Cass	10,800	1						1	.26						.26
	TOTAL U. S. — COMPANY OPERATED			13	4	1	2		1	5	6.99	2.70	.44	1.32		.50

UNITED STATES—PARTNER OPERATED:

Louisiana	Bayou St. Vincent, Assumption Ph.	15,500	3		1	2			.53		.16	.37			
	Bayou Segnette, Jefferson Ph.	9,200	1	1					.02	.02					
	Calcasieu Pass, Cameron Ph.	10,700	1		1				.08		.08				
	South Chauvin, Terrebonne Ph.	12,900	1		1				.12		.12				
	Southeast Gueydan, Vermilion Ph.	16,300	1		1				.25		.25				
	Midland, Acadia Ph.	11,700	1		1				.25		.25				
	Vermilion — Block 16, Vermilion Ph.	19,400	1		1				.01		.01				
	Vermilion — Block 16, Vermilion Ph.	13,400	1		1*				.02		.02*				
	Wildcat Assumption Ph.	14,500	1					1	.25						.25
	Bay Springs, Jasper	14,600	1	1					.08	.08					
Mississippi	Grayburg-Jackson, Eddy	3,300	1	1					.20	.20					
New Mexico	Birthright, Hopkins	9,800	2	1		1			.16	.06		.10			
Texas	Carthage, Panola	3,800	4		4				.48		.48				
	Dora Roberts, Midland	11,700	1		1				.31		.31				
	Foster, Ector	4,500	1	1					.25	.25					
	Merigale — Paul, Wood	9,600	1			1			.25			.25			
	Talco, Franklin	4,300	1	1					.50	.50					
	South Tyler, Smith	7,700	1			1			.13			.13			
	Wildcat, Hopkins	9,300	1			1			.13			.13			
	TOTAL U. S. — PARTNER OPERATED		25	6	12	5	1	1	4.02	1.11	1.68	.85	.13		.25
TOTAL U. S.			38	10	13	7	1	1	6	11.01	3.81	2.12	2.17	.13	2.28

CANADA:

British Columbia	Blueberry Area		24	15	2	3		1	3	4.46	2.28	.44	.72	.29	.73
	Blueberry Area														
	Net Profits & Carried W.I.		12	2	2			1	7	2.25	.40	.50		.25	1.10
TOTAL CANADA			36	17	4	3		2	10	6.71	2.68	.94	.72	.54	1.83
TOTAL U. S. & FOREIGN WELL COMPLETIONS			74	27	17	10	1	3	16	17.72	6.49	3.06	2.89	1.13	4.11

* Dual or multiple completions shown as single well.

The above wells do not include 2 salt water disposal wells or 4 water supply wells.

Foreign Operations

CANADA

The Company's wholly-owned subsidiary, General American Oils, Ltd., operates 197 oil wells in the Coleville field in southwestern Saskatchewan and owns interests in these and wells in other areas operated by partners equivalent to 183 net oil wells and 19 net gas wells. Production in fiscal 1967 reached an aggregate of 955,934 barrels of oil and 2,375,776 Mcf. of gas, compared with 722,522 barrels of oil and 2,425,479 Mcf. of gas for the prior year, an increase of 32% in oil and a decline of 2% in gas.

The Coleville pool continues to perform most satisfactorily under full-scale waterflood operations. Production for the fiscal 1967 year totaled 700,045 net barrels of oil, a 45% increase over the 484,133 net barrels recovered in the preceding year. To date, only 112 of the 197 available producing wells in the field have responded to the water injection program, thus producing rates should increase substantially in the coming year as this program becomes more effective.

The Inga field has been discovered six miles east of the south end of the main Mississippi oil field in the Blueberry area of Northeastern British Columbia. This field produces from the Inga sand, a stray sand in the Halfway zone of the Middle Triassic series. To date, 25 oil wells have been completed, of which 14 wells are on properties in which the Company owns an interest. Also, 2 shut-in gas cap wells have been completed on Company properties.

Another Inga sand development was discovered some nine miles south of the Blueberry Mississippian field. The discovery well is shut-in awaiting further tests because of a high gas-oil ratio. Several other Triassic tests are planned for the coming year.

The Mississippian production in the Blueberry field has shown some decline over the past year, and studies are being made for the initiation of a waterflood.

Seven wells were drilled on the Beaton River properties, where the Company owns net profits interests averaging 25% in 202,188 acres. Two of these wells were productive of oil and five were dry.

Westcoast Transmission's pipeline has been completed to the Kotcho and Yoyo gas fields in the Fort Nelson area. The Company has a 25% net profit interest in 242,637 acres in this area, which embrace the major portions of these two fields as well as the North Kotcho, Kathy, Cabin Creek and West Cabin Creek gas fields farther to the north. It is anticipated that gas sales from the two fields will commence this coming November. During the past year, five wells were drilled on the Company properties. The results were: one gas well in the Yoyo field, a one mile extension to the Kotcho field, a one and three-quarters mile extension to the West Cabin Creek field, and two dry holes.

SALES OF OIL AND GAS

Year ended June 30

	Oil (Barrels)		Gas (Mcf)	
	1967	1966	1967	1966
<i>United States:</i>				
Texas	4,420,140	4,162,404	6,572,792	6,117,300
Louisiana	2,045,096	2,010,828	48,227,251	39,804,947
Oklahoma	688,232	731,161	866,700	1,071,401
New Mexico	791,531	653,744	1,855,115	1,646,625
Kansas	211,621	231,352	287,078	217,995
California	111,702	123,071	—	—
Illinois	46,770	65,775	—	—
Other States	28,115	33,338	533,730	562,303
	<u>8,343,207</u>	<u>8,011,673</u>	<u>58,342,666</u>	<u>49,420,571</u>
<i>Canada:</i>				
Alberta	24,706	22,658	—	—
British Columbia	224,279	214,870	717,859	592,360
Saskatchewan	706,949	484,994	1,657,917	1,833,119
	<u>955,934</u>	<u>722,522</u>	<u>2,375,776</u>	<u>2,425,479</u>
	<u>9,299,141</u>	<u>8,734,195</u>	<u>60,718,442</u>	<u>51,846,050</u>

NET ACRES UNDER LEASE IN CANADA

as of June 30, 1967

<u>Province</u>	<u>Producing</u>	<u>Non-Producing</u>
Alberta	116	1,029
British Columbia	8,033*	168,310
Northwest Territories** ...	419*	32,897
Saskatchewan	13,930	—
	<u>22,498</u>	<u>202,236</u>

* Gas wells have been assigned 640 acres and oil wells 40 acres, although a greater area may be proven for production.

** Includes permit as well as lease acres.
In British Columbia 109,602 net non-producing acres represent net profit overriding royalty interests under approximately 436,400 gross acres.

SPAIN

General American continued operations in Spain through a 71% interest in the American

group owning 49% of Valdebro, a venture owned 51% by Instituto Nacional de Industria (INI), a branch of the Spanish government. The Retuerta and Santander concessions of northern Spain continue to be the focal point of operations.

Seismic operations employing common depth point (or stacking) techniques are presently being conducted on the Retuerta concession, in an area some 16 miles north of the producing Ayoluengo oil field. Preliminary results indicate that there may be major subsurface structural features within confines of the concession.

INI, under the independent operations clause of the contract (without participation by the American group), is presently drilling an exploratory test on a seismic structure on the Santander concession. This well is now below 6,000 feet in beds of Lower Cretaceous age.

Reserves

Proven net reserves, as of June 30, 1967, were estimated by Company engineers to be 135.7 million barrels of crude oil and condensate and 1,015.7 billion cubic feet of gas. The reserves include interests applicable to the liquidation of production payments, estimated at 13.3 million barrels of crude oil and condensate and 167.8 billion cubic feet of gas. Despite record production during the year, the Company's reserves were maintained at approximately last year's levels.

The above estimate does not include so-called "probable" or "possible" reserves. Fur-

ther, these estimates include no oil reserves recoverable by secondary recovery methods, unless active operations have been started on the projects or pilot floods have been successfully operated in the same field or in similar fields in the area. Neither are any reserves included for the Company's net profit interests in Northeastern British Columbia under some 437,000 acres (equivalent to 110,000 net acres) on which there are six shut-in gas fields. Since there is no production history and since development has been very limited, it is impossible to make realistic reserve estimates for these properties.

Stockton, Whatley, Davin & Company

The Company's wholly-owned subsidiary, Stockton, Whatley, Davin & Company, completed the most profitable year in its history with net income of \$1,493,506 compared to \$824,932 for fiscal 1966. This represents an 81% increase and exceeds by \$144,000 the previous record high established in 1965. These results were obtained in spite of the continuing unfavorable mortgage market throughout most of the period. In October, 1966, the annual rate of private housing starts throughout the nation reached a 20-year low. During the latter part of 1966, interest rates reached a level not seen since the late 1920's. By the end of 1966, interest rates had begun to decline, however, in April, 1967, interest rates were moving upward once again — some to levels even higher than in late summer of 1966.

In spite of such unstable and restrictive credit conditions, a total of 3,970 mortgage loans were produced during the year amounting to \$72,183,000, a 32% increase over the previous year's production of 3,002 loans totaling \$54,853,000. Only in 1959 and 1960, during Florida's housing boom, has the Company produced a higher volume of loans than this past year. FHA and VA residential loans accounted for \$56,030,000, or 78% of total production, reflecting a 48% increase in the production of single-family loans over the prior year. Loans on income properties decreased slightly to \$11,158,000, however, commitments were received on more than \$20,000,000. The Company is entering the new year with a substantial number of projects under negotiation, which should result in a greatly improved performance by this increasingly important section.

As of June 30, 1967, SWD was servicing a mortgage portfolio of \$571,281,000. This is an all-time high and represents an increase of \$31,600,000, or 6%, during the year. Foreclosures continued to decline and were down 7%, while the volume of paid-in-full loans decreased 26%. As of June 30, the volume of loans referred to attorneys for collection or

foreclosure was down 37% from the previous year. Continued improvement was shown in delinquent loans, and the year ended with a ratio of 1.91%.

The Company's insurance agency continued its growth and completed its first million dollar year in commissions. Total commissions of \$1,003,827 were earned from premiums of \$4,378,900.

Another successful year was completed by the Ponte Vedra Club which is located at Ponte Vedra Beach, Florida. Net income after depreciation amounted to \$426,093, a slight decrease from the previous year's \$454,117.

The profit from the sale of company-owned real estate amounted to \$452,176. A major portion of this resulted from the sale of a 6.5-acre tract in Jacksonville to American Telephone and Telegraph Company, to be used as a center for handling overseas telephone calls.

SWD continues its management contract (held since 1961) with Arvida, one of Florida's largest and most diversified real estate development companies. For 1966, Arvida re-

Stockton, Whatley, Davin & Company and Subsidiaries

GROSS INCOME

	1967	1966	Increase
Mortgage servicing fees	\$2,453,269	\$2,364,542	\$ 88,727
Mortgage brokerage	956,021	456,984	499,037
Insurance commissions	1,003,827	951,345	52,482
Ponte Vedra Club — net	426,093	454,117	(28,024)
Real estate sales — net	452,176	159,445	292,731
Real estate commissions	316,964	300,180	16,784
Interest — net	257,492	222,384	35,108
Supervision fees	200,400	190,636	9,764
Property management	140,260	117,301	22,959
Other sources	86,883	57,539	29,344
Total	<u>\$6,293,385</u>	<u>\$5,274,473</u>	<u>\$1,018,912</u>



JOHN A. GILLILAND, *President*
Mortgage Bankers Association of America

ported a net income of \$1,022,000, after provision for federal income taxes of \$990,000 and depreciation charges of \$623,000, nearly double its net income of the previous year. For the six months ended June 30, 1967, it earned a net income of \$1,124,000, after provision for federal income taxes and depreci-

ation. Real estate sales for the period totaled \$7,933,000 as compared to sales of \$6,084,000 for the first half of 1966, an improvement of \$1,849,000.

SWD owns 222,351 shares of the stock of Arvida Corporation and holds options to buy an additional 923,698 shares from Pennsylvania Railroad, controlling stockholder. The options are at a price of \$6.00 per share plus specified carrying charges, and expire in July, 1970. The shares owned and optioned shares aggregate over 19% of the 5,984,463 outstanding shares of the company.

SWD was honored in November, 1966, with the installation of John A. Gilliland, First Vice President of SWD, as the 48th President of the Mortgage Bankers Association of America. He has represented MBA well and has also reflected much credit on SWD and General American in the Nation's financial circles. His year as President will conclude with the National MBA Convention to be held in Dallas in October, 1967.

In evaluating the mortgage market, it is apparent that another year of uncertainty is assured. It is obvious that the availability of mortgage funds will depend upon the demands of the war in Vietnam, and borrowing by the Treasury will be heavy even if the war demands are not increased. The calendar of corporate offerings also remain heavy. However, the results obtained by SWD in the past year indicate what can be done in spite of adverse market conditions.

Investments

FARGO

On June 30, 1967, General American owned 2,310,626 shares of Fargo Oils Ltd., representing 27% of its outstanding stock, acquired at a cost of \$4,269,420. On September 7, 1967, the Company sold these shares to Reserve Oil and Gas Company for \$4.80 per share, or a total

of \$11,091,005. This resulted in a capital gain, after commissions but before income taxes, of \$6,590,522, or \$1.45 per share of General American stock. On the same date, the officers of General American who were officers or directors of Fargo resigned their positions.

BCOT

The British Columbia Oil Transmission Co. Ltd. was formed by the Blueberry group, in which General American owns a 30% interest, to transport crude produced from the Blueberry properties to a major pipeline at Taylor Flats. BCOT was operated as a non-profit facility for the benefit of the Blueberry participants. However, with several other companies becoming oil producers in this area, and particularly with the development of the Inga field in late 1966, BCOT was converted May 31, 1967, to a normal pipeline operation so that other producers could send their oil to market. BCOT has had an 8½% rate base approved and will realize a profit in its future operations. With its field limits not fully defined, the Inga production for the month of June was 27,469 barrels of oil, which gives an indication of the additional throughput that will contribute additional income to the BCOT system.

PREMIER

Premier Petrochemical Company experienced its most successful year, with production of 76,000 tons of various grades of urea at its Pasadena, Texas, plant. This compared

to 67,800 tons in 1966, and 53,200 tons in 1965, when serious mechanical troubles existed.

Sales were affected by adverse weather conditions during 1967, which generally depressed the domestic fertilizer market. Sales for the year ended July 31, 1967, were 63,288 tons, compared with 70,913 tons in the preceding year.

At June 30, 1967, General American owned 31.5% of the common stock and 35% of the senior securities of Premier. The directors of Premier and GAO, however, on September 8 and 11, 1967, respectively, agreed on a plan of merger, subject to the approval of the stockholders of Premier at a meeting called for October 18, 1967.

The plan calls for the redemption by Premier of its \$600,000 preferred shares and the issuance on a 1 for 3 basis of 34,250 shares of GAO common stock in exchange for the 102,750 common shares of Premier held by others and the assumption and offer to redeem at face amount, plus accrued interest, the \$1,560,000 Premier debentures held by others.

Premier's earnings, before income taxes, for the fiscal year ended July 31, 1967, were approximately \$779,500.

Personnel

EMPLOYEES

For the fiscal 1967 year, the average number of employees and their aggregate direct compensation were as follows:

	Number	Compensation
Oil and gas operations	417	\$3,056,609
SWD excluding Club	381	2,371,889
Ponte Vedra Club	295	800,985
Meadows Building	42	171,653
	1,135	\$6,401,136

Although the number of employees decreased 3%, overall total compensation increased 5%.

In addition to the direct compensation, the Company bears the entire cost of fringe benefits consisting of salary continuation, a broad insurance program, a Stock Bonus Plan, and a Retirement Plan. SWD has a Profit Sharing Retirement Fund (10% of the subsidiary's net income before taxes) in lieu of the parent company's Stock Bonus and Retirement Plans.

The directors and officers shall miss the advice and counsel of Hal M. Gatti who died on May 25, 1967. He had served as a director since the Company was first founded.

STOCK BONUS PLAN

The Stock Bonus Plan was started on July 1, 1954, and at the year-end held 84,940 shares of General American common stock, compared with 83,134 shares as of June 30, 1966. These shares were purchased at an aggregated cost of \$2,182,688, or \$25.70 per share. The Company contributes an amount equal to 10% of direct compensation of eligible employees, which funds are used to buy GAO stock in the open market.

RETIREMENT PLAN

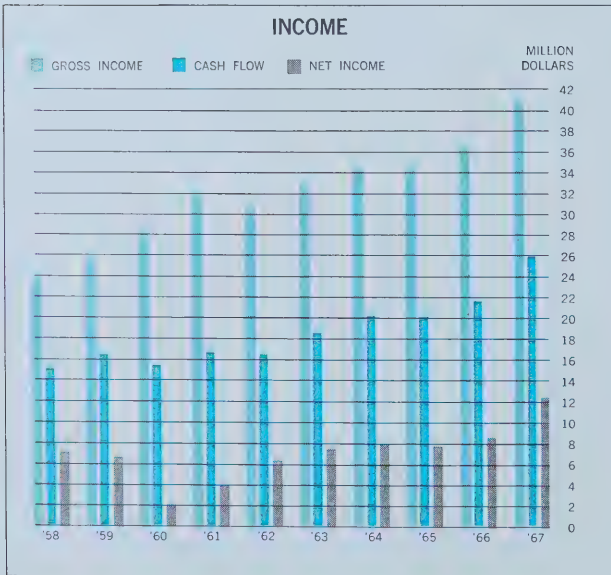
The Retirement Plan, established July 1,

1956, is self administered on actuarial computations giving effect to past service. Benefits are based on length of service and on final compensation, with a maximum of 50% of final compensation. The cost of the Plan is approximately 13% of direct remuneration of eligible employees, however, the normal cost is 5.6%, the balance being for funding past service deficiencies on a ten-year basis. The Meadows Building is the principal asset of the Trust, however, funds are invested in other real estate, oil interests, stocks and other assets. The Company occupies nearly three floors of the building.

Financial Review

ACCOUNTING

This year, the Company adopted the change in accounting for gas sales explained in detail under Note "B" to the Financial Statements, and restated income for prior years. The change reduced net income for fiscal 1967 by \$789,102 and for fiscal 1966 by \$570,571.



INCOME

On June 30, 1967, the Company closed the most successful year in its history. Gross and net income, notwithstanding the accounting change mentioned above, surpassed those of the previous record 1966 year by large margins. Net income for 1967 of \$12,365,777, or \$2.73 per share, was up 41.6% from 1966 net income of \$8,728,513, or \$1.93 per share. Operating income was \$15,870,254, an increase of 21.7% over the \$13,035,547 for the prior year. Gross income increased by 11.5% to \$40,534,722 from the 1966 gross of \$36,336,598. Cash flow was \$25,878,403, or \$5.71 per share, compared with \$21,571,131, or \$4.76 per share, for 1966, an increase of 20%.

Gross income increased as a result of improved allowables (discussed under "Domestic Production"), secondary recovery operations, better gas takes and higher earnings from Stockton, Whatley, Davin & Company. The average price received for oil was \$2.83 per barrel compared with \$2.82 per barrel in fiscal 1966, however, the average price for domestic crude increased 3½ cents per barrel. Recent price adjustments should further improve the average prices for the coming year.

Increases in operating expenses and general and administrative expenses were nominal, and a reduction of \$448,764 was effected in dry holes and abandonments. Other deductions declined by \$802,557, as a result of a decrease in interest expense and an increase in interest income. Approximately 87% of the increase in gross operating income was carried through to net income. The net for fiscal 1967 was 30.5% of gross operating income, compared with 24% for fiscal 1966.

WORKING CAPITAL

At June 30, 1967, working capital was \$7,197,196, an increase of \$2,439,057 over the beginning of the year, all represented by increased cash on hand. Cash at the year-end included the proceeds of the sale of a \$1,000,000 production payment, whereas, the cash at June 30, 1966 included \$2,000,000 from a similar sale. The actual improvement in working capital, therefore, was \$3,439,057. The current ratio at June 30, 1967 was \$1.98 to \$1.00, compared with \$1.74 to \$1.00 at the beginning of the fiscal year.

PROPERTY

Property and equipment (gross) increased by \$4,445,604 to \$266,970,095. An increase in accumulated depletion and depreciation of \$8,043,957 was offset by a reduction of \$7,968,718 in unpaid production payments. As a result, property and equipment (net) increased by \$4,370,365, or 4.2%.

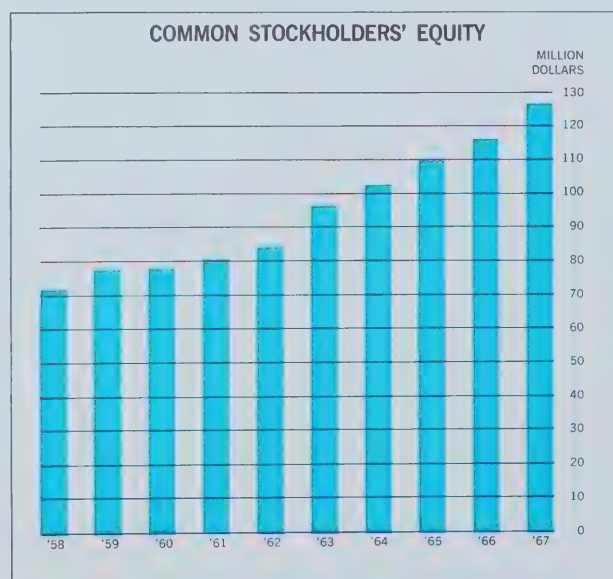
DEFERRED INCOME

Deferred income of \$1,369,628 consisted principally of a production payment of 1,000,000 sold in June, 1967, for tax purposes, and the unliquidated portion of a \$2,000,000 production payment sold in June, 1966. It is the Company's policy to defer such income until the oil and gas is produced and applied on the production payment.

CAPITAL

At June 30, 1967, the stockholders' equity as shown by the books was \$127,573,024, or \$28.15 per share, an increase for the year of \$10,579,377, or 9%. The management is of the opinion that the value of the Company's net assets is greatly in excess of both the book value and the market price of its shares. Although the Company did not reacquire any of its shares during the 1967 fiscal year, it may purchase shares from time to time at such prices and in such amounts as it may consider in the best interests of the Company.

On January 2, 1967, the Company issued 132,000 shares (including 572 treasury shares) of its common stock as a 3% stock dividend to shareholders of record on December 16, 1966. Cash dividends were continued at the rate of \$.10 per quarter. The 3% stock dividend resulted in an adjustment from \$36.56 to \$35.50 of the conversion price with respect to the Company's 4% Subordinated Debentures, due May 1, 1984 (Convertible until May 1, 1969). An additional 16,334 common shares were reserved for conversion, making a total of 563,380 shares reserved.





Statement of Consolidated Income

GENERAL AMERICAN OIL COMPANY OF TEXAS AND CONSOLIDATED SUBSIDIARIES

	<i>Year Ended June 30, 1967</i>	<i>Year Ended June 30, 1966*</i>
GROSS OPERATING INCOME		
Crude oil, condensate and casinghead products (Note A)	\$ 27,688,408	\$ 25,808,134
Natural gas (Notes A and B)	10,689,254	9,120,813
Net income of Stockton, Whatley, Davin & Company (Note D)	1,493,506	824,932
Transportation and other	663,554	582,719
	<u>40,534,722</u>	<u>36,336,598</u>
OPERATING EXPENSES		
Operating expenses, exclusive of those set forth below	6,047,050	5,752,963
General and administrative expenses	1,937,436	1,826,443
Taxes (includes state taxes on income: 1967 — \$35,533; 1966 — \$11,331) (Note A)	3,167,356	2,879,027
Depletion and depreciation (Note C)	11,943,271	10,763,823
Dry holes and abandonments	1,274,036	1,722,800
Lease rentals	295,319	355,995
	<u>24,664,468</u>	<u>23,301,051</u>
OPERATING INCOME	<u>15,870,254</u>	<u>13,035,547</u>
OTHER (INCOME) AND DEDUCTIONS		
Interest expense (Notes A and B)	4,841,149	5,252,385
Capital gains	(75,869)	(3,975)
Interest and miscellaneous income	(1,260,803)	(941,376)
	<u>3,504,477</u>	<u>4,307,034</u>
NET INCOME (Notes A, B and E)	<u>\$ 12,365,777</u>	<u>\$ 8,728,513</u>
NET INCOME PER COMMON SHARE **	\$2.73	\$1.93

* Restated — see Note B.

** Based on 4,532,000 shares outstanding at June 30, 1967.

See notes to financial statements.



Source and Application of Funds

GENERAL AMERICAN OIL COMPANY OF TEXAS AND CONSOLIDATED SUBSIDIARIES

SOURCE OF FUNDS

	<i>Year Ended June 30, 1967</i>	<i>Year Ended June 30, 1966*</i>
Net income	\$ 12,365,777	\$ 8,728,513
Add: Depletion and depreciation.....	11,943,271	10,763,823
Dry holes, abandonments and lease rentals.....	1,569,355	2,078,795
Funds provided from operations (cash flow).....	25,878,403	21,571,131
Proceeds from sales of "carved-out" production payments...	1,000,000	2,000,000
Disposal of properties.....	1,302,464	—
Less: Production payments assumed.....	(391,907)	—
Note payable assumed.....	(426,690)	—
Total.....	<u>27,362,270</u>	<u>23,571,131</u>

APPLICATION OF FUNDS

Capital expenditures	11,132,002	22,085,185
Less: Acquisition production payments.....	(3,451,693)	(10,532,021)
Acquisition note payable.....	—	(426,690)
	<u>7,680,309</u>	<u>11,126,474</u>
Liquidation of reserved production payments.....	11,028,504	8,792,555
Liquidation of "carved-out" production payments.....	1,674,062	—
Additions to accounts collectible solely from production	1,574,016	1,501,030
Additions to investments.....	1,139,571	427,192
Cash dividends to stockholders.....	1,786,400	1,734,480
Purchase of Company's common shares.....	—	111,027
Other	40,351	37,643
Total.....	<u>24,923,213</u>	<u>23,730,401</u>

INCREASE (DECREASE) IN WORKING CAPITAL	<u>\$ 2,439,057</u>	<u>\$ (159,270)</u>
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* Restated — see Note B.

See notes to financial statements.



Consolidated Balance Sheet

GENERAL AMERICAN OIL COMPANY OF TEXAS AND CONSOLIDATED SUBSIDIARIES

ASSETS

	June 30, 1967	June 30, 1966*
CURRENT ASSETS		
Cash and certificates of deposit.....	\$ 7,387,104	\$ 4,425,945
Accounts and notes receivable.....	6,439,540	6,408,418
Inventories:		
Crude oil — at posted market prices.....	90,118	84,789
Materials and supplies — at cost or less.....	627,026	745,679
Prepaid expenses	21,381	43,781
Total current assets.....	14,565,169	11,708,612
INVESTMENTS		
Investment in Stockton, Whatley, Davin & Company (Note D).....	10,277,385	9,183,879
Fargo Oils Ltd. stock — at cost (1967 quoted market value — 2,310,626 shares \$9,964,575) (Note G) ..	4,269,420	4,222,989
Other stocks and debentures — at cost.....	1,168,919	1,169,285
Total investments	15,715,724	14,576,153
OTHER ASSETS		
Accounts collectible solely from production.....	16,751,971	15,177,955
Advances to joint ventures, etc.....	258,670	343,405
Cash surrender value of life insurance.....	495,284	472,532
Unamortized debt expense.....	274,128	290,412
Total other assets.....	17,780,053	16,284,304
PROPERTY AND EQUIPMENT (at cost)		
Producing oil and gas properties (Note A).....	256,813,560	252,312,378
Gasoline plants, pipelines and other equipment.....	7,073,433	6,772,264
Undeveloped leases and royalties.....	3,083,102	3,439,849
	266,970,095	262,524,491
Less accumulated depletion and depreciation (Note C)....	102,177,490	94,133,533
	164,792,605	168,390,958
Less unpaid production payments (Note A).....	56,542,926	64,511,644
Total property and equipment.....	108,249,679	103,879,314
	<u>\$156,310,625</u>	<u>\$146,448,383</u>

* Restated — see Note B.

See notes to financial statements.

LIABILITIES AND CAPITAL

	<i>June 30, 1967</i>	<i>June 30, 1966*</i>
CURRENT LIABILITIES		
Accounts payable	\$ 6,864,117	\$ 6,446,664
Accrued interest and general taxes.....	503,856	418,471
Current maturities of long-term debt.....	—	85,338
Total current liabilities.....	7,367,973	6,950,473
LONG-TERM DEBT		
4 $\frac{3}{4}$ % Subordinated Debentures, due May 1, 1984, convertible until 1969 (current conversion price \$35.50 per share) — sinking fund payments begin in 1970.....	20,000,000	20,000,000
Notes payable	—	426,690
Total long-term debt.....	20,000,000	20,426,690
DEFERRED INCOME (includes proceeds from production payment sold: 1967 — \$1,325,938; 1966 — \$2,000,000).....	1,369,628	2,077,573
CAPITAL		
Common shares, par value \$5.00 per share: Authorized: 1967 — 7,500,000 shares; 1966 — 5,000,000 shares (563,380 shares reserved for conversion of debentures) Issued: 1967 — 4,532,000; 1966 — 4,400,572.....	22,660,000	22,002,860
Capital surplus (includes transfers from earned surplus of \$50,164,425 through 1967, representing the excess of market value over par of common share dividends).....	56,597,827	53,333,467
Earned surplus	48,315,197	41,676,558
	127,573,024	117,012,885
Less 572 common shares in treasury in 1966 — at cost.....	—	19,238
Total capital	127,573,024	116,993,647
CONTINGENT LIABILITIES (NOTE F)	<u>\$156,310,625</u>	<u>\$146,448,383</u>



Statements of Consolidated Surplus

GENERAL AMERICAN OIL COMPANY OF TEXAS AND CONSOLIDATED SUBSIDIARIES

EARNED SURPLUS

	Year ended June 30, 1967	Year ended June 30, 1966
Balance, beginning of year as previously reported.....	\$ 43,130,914	\$ 39,889,202
Less natural gas sales and interest adjustment applicable to prior years (Note B).....	1,454,356	883,785
Balance, beginning of year as adjusted.....	41,676,558	39,005,417
Net income (Notes A, B and E).....	12,365,777	8,728,513*
Treasury shares purchased and reissued in 3% stock dividend (572 shares in 1967 and 3,233 shares in 1966).....	(16,378)	(92,719)
3% stock dividend (132,000 shares issued January 2, 1967 and 128,172 shares issued January 3, 1966).....	(3,924,360)	(4,230,173)
Cash dividends paid — 40 cents per share.....	(1,786,400)	(1,734,480)
Balance, end of year.....	<u>\$ 48,315,197</u>	<u>\$ 41,676,558*</u>

CAPITAL SURPLUS

Balance, beginning of year.....	\$ 53,333,467	\$ 49,727,989
Market value in excess of par value of shares issued as 3% stock dividend.....	3,264,360	3,605,478
Balance, end of year.....	<u>\$ 56,597,827</u>	<u>\$ 53,333,467</u>

* Restated — see Note B.
See notes to financial statements.

Accountants' Report

Board of Directors
General American Oil Company of Texas
Dallas, Texas

We have examined the consolidated balance sheet of General American Oil Company of Texas and its consolidated subsidiaries as of June 30, 1967, and the related statements of consolidated income, earned surplus, capital surplus, and source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. Our opinion expressed herein, insofar as it relates to the amounts included for the Stockton, Whatley, Davin & Company investment and net income, is based upon the report of other accountants who examined the financial statements of that unconsolidated wholly-owned subsidiary.

In our opinion, the accompanying balance sheet and statements of income, earned surplus, and capital surplus present fairly the consolidated financial position of General American Oil Company of Texas and its consolidated subsidiaries at June 30, 1967, and the consolidated results of their operations and source and application of funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year after giving retroactive effect to the change, which we approve, in accounting for natural gas sales subject to refunds as explained in Note B to the financial statements.

Dallas, Texas
August 18, 1967, except as to Note G,
as to which the date is September 7, 1967.

Ernst & Ernst



Notes to the Financial Statements

GENERAL AMERICAN OIL COMPANY OF TEXAS AND CONSOLIDATED SUBSIDIARIES

A—PRODUCTION PAYMENT ACCOUNTING

A major portion of the oil and gas properties has been acquired subject to production payments reserved by the sellers, payable, together with interest and production taxes, solely from the proceeds of oil and gas.

It is the Company's policy to treat these reserved production payments as a part of the acquisition cost of the properties and to record them as liabilities. The original amounts included in the gross cost of producing oil and gas properties are \$170,334,798 at June 30, 1967 and \$169,737,031 at June 30, 1966. Since the Company has no direct liability on these, the unpaid balances are shown as a deduction from the property accounts on the balance sheet.

Consistent with this treatment, the Company includes in its income the proceeds from the sale of oil and gas applied in liquidation of the production payments. The amounts of such proceeds included under the respective captions and the net proceeds applied in liquidation of production payments (after adjustments described in Note B) during the two years ended June 30, 1967 are as follows:

	1967	1966
Crude oil and gas sales	\$15,943,291	\$13,917,565
Less:		
Taxes	1,150,908	1,037,348
Interest expense	3,763,879	4,087,662
	<u>4,914,787</u>	<u>5,125,010</u>
Net proceeds	<u>\$11,028,504</u>	<u>\$ 8,792,555</u>

B—NATURAL GAS SALES SUBJECT TO REFUND

In prior years, the Company recognized as income the proceeds received from the sale of natural gas, including that portion subject to possible refunds under proceedings pending before the Federal Power Commission or being litigated before Federal Courts. In December 1966, the Examiner in the South Louisiana Area Rate Proceeding issued his decision setting rates below those being collected by the Company for the major portion of its interstate gas sales. The Company, therefore, has changed its accounting policy to recognize income from interstate gas sales only to the extent of rates approved or set by the Federal Power Commission and to provide for interest on possible refunds.

Comparative amounts for 1966 in the accompanying financial statements have been restated to give effect to this change. Accordingly, Earned Surplus at June 30, 1966 has been decreased by \$1,454,356 (of which \$883,785 is applicable to the period prior to June 30, 1965) with offsetting increases to production payments payable of \$1,220,706 and to accounts payable of \$233,650. The effect of the change on net income has been to reduce earnings for 1967 by \$789,102 and for 1966 by \$570,571.

C—DEPLETION AND DEPRECIATION

The Company provides for depletion of producing oil and gas leaseholds and for depreciation of related equipment on a unit-of-production basis. All properties acquired prior to June 30, 1959 have been aggregated for this computation. After that date, the properties acquired in each significant acquisition have been aggregated for computation purposes. The unit rate for each aggregated group of properties is de-

termined by dividing the total cost, which includes the original amount of the related production payments, less accumulated depletion and depreciation, by the estimated oil and gas reserves of the aggregated properties, including that portion required to liquidate the production payments. The Company annually recomputes the reserves used in the computations.

D—INVESTMENT IN STOCKTON, WHATLEY, DAVIN & COMPANY

The investment in this wholly-owned subsidiary is carried at equity in its net assets. A summary of the subsidiary's audited consolidated financial statements at June 30, 1967 and June 30, 1966 follows:

Consolidated Balance Sheet

	1967	1966
Current assets	\$36,623,403	\$30,518,143
Investments and other assets	8,549,288	8,712,454
	<u>\$45,172,691</u>	<u>\$39,230,597</u>
Current liabilities	\$31,665,723	\$26,303,752
Long-term notes	3,229,583	3,696,461
Deferred taxes	—	46,505
Capital:		
Common shares and capital surplus	4,974,907	4,974,907
Earned surplus	5,302,478	4,208,972
	<u>\$45,172,691</u>	<u>\$39,230,597</u>

Statement of Consolidated Income and Earned Surplus

Income	\$ 6,293,385	\$ 5,274,473
Expenses	4,799,879	4,449,541
Net income	1,493,506	824,932
Earned surplus at beginning of year	4,208,972	4,084,040
Deduct dividends paid	400,000	700,000
Earned surplus at end of year	<u>\$ 5,302,478</u>	<u>\$ 4,208,972</u>

E—FEDERAL INCOME TAXES

The Company has a net operating loss carry forward against taxes which might otherwise be payable for future years.

F—LITIGATION AND CONTINGENT LIABILITIES

In 1956, the lessor of land on which the Meadows Building is located brought suit to cancel the lease. The present lessee, the Employees' Retirement Trust, and the Company are named as defendants in the action. The Trust is protected by title insurance and, in the opinion of the Company's counsel, the suit is without merit.

The Company has partially guaranteed the debentures of a pipe line company, in which a consolidated subsidiary owns an interest. The maximum contingent liability to the Company is \$516,780.

G—SUBSEQUENT EVENTS

Reference is made to the "Investments—Fargo" section of the annual report concerning the sale of the Company's investment in stock of Fargo Oils Ltd. on September 7, 1967.



Ten-Year Summary

FINANCIAL POSITION—at June 30,

	1967	1966	1965
Current assets	\$ 14,565,169	\$ 11,708,612	\$ 10,977,804
Current liabilities	7,367,973	6,950,473	6,060,395
Working capital	<u>7,197,196</u>	<u>4,758,139</u>	<u>4,917,409</u>
Investments and other assets	33,495,777	30,860,457	29,297,797
Property and equipment	266,970,095	262,524,491	242,520,499
Less — accumulated depletion and depreciation	102,177,490	94,133,533	83,747,377
Less — unpaid production payments	56,542,926	64,511,644	62,772,178
Property and equipment — net	<u>108,249,679</u>	<u>103,879,314</u>	<u>96,000,944</u>
	148,942,652	139,497,910	130,216,150
Less:			
Long-term debt	20,000,000	20,426,690	20,000,000
Deferred income	1,369,628	2,077,573	105,509
Common stockholders' equity	<u>\$127,573,024</u>	<u>\$116,993,647</u>	<u>\$110,110,641</u>
Common shares outstanding	4,532,000	4,400,000	4,275,600
Common stockholders of record	5,451	5,371	5,603

INCOME STATEMENT—year ended June 30,

Gross operating income	\$ 40,534,722	\$ 36,336,598	\$ 34,306,259
Operating expenses exclusive of those set forth below	7,984,486	7,579,406	7,379,010
Taxes, including those on income	3,167,356	2,879,027	2,661,891
Dry holes, abandonments and lease rentals	1,569,355	2,078,795	2,203,257
Depletion and depreciation	<u>11,943,271</u>	<u>10,763,823</u>	<u>9,903,639</u>
Operating income	15,870,254	13,035,547	12,158,462
Other gains (losses) after taxes	75,869	3,975	163,414
Interest and miscellaneous income	1,260,803	941,376	819,483
Interest expense	<u>(4,841,149)</u>	<u>(5,252,385)</u>	<u>(5,206,748)</u>
Net income	<u>\$ 12,365,777</u>	<u>\$ 8,728,513</u>	<u>\$ 7,934,611</u>
Net income per common share*	\$ 2.73	\$ 1.98	\$ 1.86
Cash flow (net income plus depletion, depreciation and exploratory expenses)	\$ 25,878,403	\$ 21,571,131	\$ 20,041,507
Cash flow per common share*	\$ 5.71	\$ 4.90	\$ 4.69

COMMON DIVIDENDS—year ended June 30,

Cash	\$ 1,786,400	\$ 1,734,480	\$ 1,672,913
Stock (in number of shares)	132,000	128,172	205,768
Cash — per share	\$.40	\$.40	\$.40
Stock — per share	3%	3%	5%

OPERATING STATISTICS—OIL & GAS OPERATIONS

Texas proration — % of schedule allowable	34.84	31.32	28.21
Net crude oil sales — barrels	9,299,141	8,734,195	8,141,908
Net crude oil sales (daily average)	25,477	23,929	22,307
Net gas sales — Mcf	60,718,442	51,846,050	48,520,793
Average price per barrel	\$ 2.83	\$ 2.82	\$ 2.81
Wells operated — gross	1,927	2,028	2,080
Wells owned — net	1,861	1,950	1,956
Annual payroll	\$ 3,056,609	\$ 2,959,772	\$ 2,883,122
Employees — average	417	420	422

* Based on number of shares outstanding at end of each year.
Financial figures for years 1960 through 1966 restated in conformity
with Note "B" to Financial Statements.

GENERAL AMERICAN OIL COMPANY OF TEXAS AND CONSOLIDATED SUBSIDIARIES

1964	1963	1962	1961	1960	1959	1958
\$ 11,796,598	\$ 9,671,783	\$ 23,806,768	\$ 23,120,956	\$ 17,466,918	\$ 24,393,814	\$ 8,176,166
6,084,594	6,702,480	5,811,937	6,620,432	7,018,666	5,481,057	4,318,781
<u>5,712,004</u>	<u>2,969,303</u>	<u>17,994,831</u>	<u>16,500,524</u>	<u>10,448,252</u>	<u>18,912,757</u>	<u>3,857,385</u>
27,007,758	25,171,748	15,131,745	16,005,813	15,464,757	11,019,774	9,480,491
241,086,236	241,708,773	219,729,282	212,892,428	217,122,460	149,162,493	126,856,869
75,893,609	69,931,215	61,590,574	54,243,669	51,702,639	44,970,325	39,274,525
71,574,813	82,665,602	78,421,723	83,594,151	88,475,698	35,400,191	27,200,367
<u>93,617,814</u>	<u>89,111,956</u>	<u>79,716,985</u>	<u>75,054,608</u>	<u>76,944,123</u>	<u>68,791,977</u>	<u>60,381,977</u>
126,337,576	117,253,007	112,843,561	107,560,945	102,857,132	98,724,508	73,719,853
20,000,000	20,000,000	20,000,000	20,000,000	20,070,125	20,302,625	541,125
2,971,795	70,869	8,290,463	6,298,091	4,100,952	121,039	257,757
<u>\$103,365,781</u>	<u>\$ 97,182,138</u>	<u>\$ 84,553,098</u>	<u>\$ 81,262,854</u>	<u>\$ 78,686,055</u>	<u>\$ 78,300,844</u>	<u>\$ 72,920,971</u>
4,069,800	3,960,500	3,470,028	3,431,700	3,337,524	3,197,480	3,045,600
5,833	5,711	4,516	4,751	4,676	4,546	4,594
<u>\$ 34,302,728</u>	<u>\$ 32,932,308</u>	<u>\$ 30,744,250</u>	<u>\$ 31,845,117</u>	<u>\$ 27,952,597</u>	<u>\$ 25,789,454</u>	<u>\$ 23,797,458</u>
7,507,998	7,457,861	7,541,284	7,473,487	7,749,396	6,724,822	6,849,126
2,618,034	2,548,001	2,523,876	2,231,542	2,036,400	1,669,363	1,454,792
1,873,592	1,694,893	1,202,800	3,317,089	5,065,322	3,139,591	2,105,037
10,292,144	9,338,810	8,669,115	9,165,066	8,146,162	6,573,575	5,766,050
12,010,960	11,892,743	10,807,175	9,657,933	4,955,317	7,682,103	7,622,453
662,342	735,500	617,347	(331,358)	45,993	444,629	306,557
974,851	971,307	955,984	728,522	681,176	121,648	78,498
(5,690,294)	(6,131,849)	(5,977,645)	(5,975,202)	(3,491,877)	(1,592,333)	(907,701)
<u>\$ 7,957,859</u>	<u>\$ 7,467,701</u>	<u>\$ 6,402,861</u>	<u>\$ 4,079,895</u>	<u>\$ 2,190,609</u>	<u>\$ 6,656,047</u>	<u>\$ 7,099,807</u>
\$ 1.96	\$ 1.89	\$ 1.85	\$ 1.19	\$.66	\$ 2.08	\$ 2.33
\$ 20,123,595	\$ 18,501,404	\$ 16,274,776	\$ 16,562,050	\$ 15,402,093	\$ 16,369,213	\$ 14,970,894
\$ 4.94	\$ 4.67	\$ 4.69	\$ 4.83	\$ 4.61	\$ 5.12	\$ 4.92
\$ 1,772,040	\$ 1,759,041	\$ 1,385,455	\$ 1,364,847	\$ 1,322,265	\$ 1,263,924	\$ 1,065,960
109,365	175,582	101,928	100,125	159,644	152,280	88,764
\$.40	\$.40	\$.40	\$.40	\$.40	\$.40	\$.35
3%	5%	3%	3%	5%	5%	3%
28.29	26.93	26.85	27.67	30.05	36.71	35.89
8,801,834	8,769,094	8,377,330	8,944,562	8,816,273	8,231,449	7,552,723
24,049	24,025	22,952	24,506	24,088	22,552	20,692
43,601,352	37,770,336	32,791,812	28,507,388	13,235,465	5,988,033	3,370,816
\$ 2.79	\$ 2.80	\$ 2.82	\$ 2.81	\$ 2.75	\$ 2.83	\$ 2.90
2,250	2,425	2,465	2,458	3,676	3,438	3,432
2,061	2,235	2,205	2,253	3,164	2,990	2,923
\$ 2,887,785	\$ 2,875,002	\$ 2,868,531	\$ 3,095,533	\$ 3,035,529	\$ 3,017,962	\$ 3,080,061
435	447	460	505	499	523	547



Agents

GENERAL OFFICES

MEADOWS BUILDING
Dallas, Texas 75206

TRANSFER AGENTS

THE CORPORATION TRUST COMPANY
277 Park Avenue, New York, New York 10017

UNITED CALIFORNIA BANK
108 West Sixth Street, Los Angeles, California 90054

REGISTRARS

FIRST NATIONAL CITY BANK
55 Wall Street, New York, New York 10015

BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION
219 West Seventh Street, Los Angeles, California 90014

DIVIDEND DISBURSING AGENT

THE CORPORATION TRUST COMPANY
277 Park Avenue, New York, New York 10017

TRUSTEE FOR DEBENTUREHOLDERS

REPUBLIC NATIONAL BANK OF DALLAS
Pacific and Ervay Streets, Dallas, Texas 75201

PAYING AGENTS FOR DEBENTURES

REPUBLIC NATIONAL BANK OF DALLAS
Pacific and Ervay Streets, Dallas, Texas 75201

BANKERS TRUST COMPANY
16 Wall Street, New York, New York 10015

